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DeNUCCI NOTES IMPROVEMENTS AT LOTTERY BUT URGES MORE EFFORTS ON TAX REPORTING

State Auditor Joe DeNucci, in a transition audit on the State Lottery done at the request of State Treasurer Timothy P. Cahill, today urged the Lottery to step up its efforts to curtail potential tax evasion involving winning lottery tickets in order to ensure fairness to all lottery players.

“The Lottery is a \$4 billion-a-year gaming operation financed largely by people with lower incomes,” said DeNucci. “Its top priority must be to ensure accountability to the public and fairness to all of its players.”

However, DeNucci also reported that the current administration of the Lottery has begun to implement improvements in response to prior audits, particularly in collecting delinquent payments from Lottery sales agents and limiting the possibility of agents scanning and purchasing instant game tickets.

The transition review contained these major findings:

- As detailed in previous reports, professional cashers continue to claim large volumes of prizes for hundreds of thousands of dollars a year. This enables the actual winners to evade state and federal tax obligations, and, because the Lottery only withholds taxes on prizes of \$5,000 or more and requires tax reporting only on each individual claim exceeding \$600, it creates the potential for cashers to also avoid taxes. In response to DeNucci’s recommendations, the Lottery said it has met with Internal Revenue Service and state Department of Revenue representatives on several occasions since February to discuss improving enforcement efforts, and has formed an internal committee to consider changes in the withholding threshold on winning tickets.
- The amount owed the Lottery by sales agents has been reduced from \$9 million to \$6.8 million, including write-offs of \$880,000 in bad debt. DeNucci’s previous audit found that the Lottery’s 35-cent-per-day fee charged to agents to cover non-performance was insufficient. In response to DeNucci’s recommendations, the Lottery indicated it is developing a new sliding-scale fee structure that will consider the payment performance history of each agent, which should help cover losses and act as a deterrent against future delinquencies.

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- In response to concerns raised in prior DeNucci audits regarding a sales agent's ability to scan instant game tickets, the new administration at the Lottery has taken action to improve oversight by establishing penalties and agent monitoring guidelines. However, DeNucci's report urged the Lottery to consider reducing from 11 to six the number of errors or infractions that trigger a shutdown of an agent's ability to cash instant tickets.
- In order to strengthen internal controls at the Lottery, DeNucci repeated his previous recommendation that the Lottery immediately fill its internal audit position which has been vacant for more than a year, and complete a department-wide risk assessment and internal control plan.
- In response to concerns raised in prior DeNucci audits, the Lottery has agreed to comply with the requirements of the state's Open Meeting Law, file statutorily required reports on losses and thefts of funds to the State Auditor, and include audit access requirements for the State Auditor in all contracts with sales agents.
- DeNucci's audit urged the Lottery to strengthen its oversight of Massasoit Greyhound Association Inc., (Raynham Greyhound Park), which is the only Lottery sales agent allowed to cash winning tickets of more than \$600. The report said the potential for tax evasion, acceptance of false identification and the cashing of tickets by claimants with outstanding tax liens is greater at Raynham because it lacks the controls that exist at Lottery-operated offices. In response, the Lottery said it is reevaluating its contract with MGA and is weighing several options to address this issue.

"I look forward to continued progress by Treasurer Cahill and the Lottery management in meeting these important objectives," said DeNucci. "While there are still areas that need to be addressed in order to protect the Lottery's resources from loss and abuse, the current administration of the Lottery has made substantial improvements in its operation."